

Message Text

CONFIDENTIAL

PAGE 01 STATE 164799

61

ORIGIN ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 L-03 /160 R

DRAFTED BY ARA/CEN:DLAZAR

APPROVED BY ARA/CEN:DLAZAR

EB:JINGERSOLL (SUBSTANCE)

STR:BSTEINBAK (INFO)

OPIC (INFO)

GC (INFO)

----- 032429

P R 292242Z JUL 74

FM SECSTATE WASHDC

TO AMEMBASSY SAN JOSE PRIORITY

INFO AMEMBASSY TEGUCIGALPA

AMEMBASSY MANAGUA

AMEMBASSY BOGOTA

AMEMBASSY QUITO

AMEMBASSY PANAMA

AMEMBASSY GUATEMALA

C O N F I D E N T I A L STATE 164799

GUATEMALA FOR ROCAP

E.O. 11652: GDS

TAGS: ETRD

SUBJECT: BANANAS

1. ON JULY 28 LUIS BURSTIN DELIVERED TO LAZAR, ARA/CEN, MEMORANDUM FROM PRESIDENT ODUBER. (IT WAS UNSIGNED AND UNDATED BUT ON THE STATIONERY OF QUOTE THE PRESIDENCY UNQUOTE.) ROUGH TRANSLATION OF TEXT FOLLOWS:

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PAGE 02 STATE 164799

(A) FACED BY THE CRISIS CREATED BY THE INCREASE IN

PETROLEUM PRICES, COSTA RICA DECIDED TO LOOK FOR A MEANS OF COMPENSATING FOR THIS FOREIGN EXCHANGE BURDEN BY INCREASING THE PRICE OF ITS BANANAS. HONDURAS AND PANAMA ALSO AGREED.

(B) IN MARCH CONSULTATIONS WERE BEGUN AND IT WAS AGREED TO INCREASE BY ONE DOLLAR THE PRICE OF A 40 LB. BOX OF BANANAS BY MEANS OF AN EXPORT TAX. EACH COUNTRY WOULD ACCOMPLISH THIS IN ACCORDANCE WITH ITS OWN ATTRIBUTES (IDIOSINCRACIA). ECUADOR, COLOMBIA, NICARAGUA, AND GUATEMALA WERE INVITED TO FORM UPEB.

(C) UPON THE CHANGE OF GOVERNMENT, THERE WAS NO AGREED-UPON INTERNATIONAL PROGRAM. ECUADOR WITHDREW FROM THE AGREEMENT, AS DID NICARAGUA. COSTA RICA AND PANAMA IMPOSED A ONE DOLLAR TAX; HONDURAS FIFTY CENTS AND COLOMBIA FORTY CENTS. GUATEMALA WAITED.

(D) STANDARD FRUIT COMPANY ACCEPTED AN OLD OFFER OF FIGUERES AND OFFERED TO SELL ITS PLANTATIONS AND ENTERPRISES FOR BOOK VALUE. CONVERSATIONS WERE INITIATED AND STANDARD THREATENED TO ABANDON COSTA RICA IF IT DID NOT RECEIVE EVERYTHING IT SOUGHT (SI NO SE LE RECIBIAN LAS LLAVES (SIC)). COSTA RICA DECIDED TO BUY, DESPITE HAVING NO INTEREST IN THE PURCHASE, DUE TO THE FEAR OF A PULL-OUT.

(E) SIXTY DAYS WERE GIVEN TO THE BANANA-PURCHASING COMPANIES (DEL MONTE, UNITED, STANDARD, AFRICANISH) TO PAY THE TAX OF ONE DOLLAR PER BOX. THIS PERIOD EXPIRED JULY FIRST, THE DATE WHEN THE COMPANIES WERE TO BEGIN PAYMENTS IN CASH.

(F) AT THE END OF JUNE, COSTA RICA ISSUED REGULATIONS STATING THAT THE PAYMENT OF THE TAX WOULD BE BASED ON THE AVERAGE ANNUAL PRICE OF THE JOBBER TO HIS CLIENTS; SUPERMARKETS, DISTRIBUTORS, ETC. THIS PRICE IS QUOTED DAILY IN CITIES IN THE U.S. IF THE PRICE IS FOUR DOLS FIFTY CENTS OR LESS, THE COMPANIES WOULD PAY TWENTY-FIVE CENTS; AND FROM THAT SUM (FOUR DOLS FIFTY) ON, THE PRICE IS DIVIDED SO THAT ONE-HALF GOES TO THE COMPANY AND ONE-CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 164799

HALF TO THE TAX UNTIL A TAX OF ONE DOLLAR IS ARRIVED AT (SIX DOLLARS SALES PRICE). THE CURRENT AVERAGE IS BETWEEN FIVE DOLLARS AND FIVE DOLLARS FIFTY CENTS, WHICH MAKES A TAX GREATER THAN FIFTY CENTS PER BOX. TAX PAYMENTS ARE PARTIAL AT THE DISCRETION OF THE GOVERNMENT. (LAS LIQUIDACIONES SON PARCIALES A JUICIO DEL GOBIERNO.) WE WILL MAKE THE FIRST ON SEPTEMBER 30. (HACEMOS LA PRIMERA EL 30 DE SETIEMBRE.)

(G) THE COUNTRIES MET IN PANAMA JULY 15 AND OBSERVERS WERE PRESENT FROM MEXICO, JAMAICA AND THE DOMINICAN REPUBLIC. UPEB WILL BE FORMED IN SIXTY DAYS.

(H) COSTA RICA IS AWAITING FINAL DETAILS IN ORDER TO PURCHASE STANDARD. END TEXT.

2. IN RESPONSE TO QUESTION, BURSTIN SAID ODUBER DID NOT EXPECT ANY ANSWER OR COMMENTS. BURSTIN HIMSELF DID NOT APPEAR ANXIOUS TO DISCUSS MEMORANDUM OR ELICIT ANY REACTIONS TO IT ALTHOUGH MEMORANDUM AND THE GENERAL TOPIC OF BANANA TAX WERE TOUCHED UPON AT SEVERAL POINTS IN A LENGTHY CONVERSATION.

3. PRINCIPLE EXCHANGES ON THIS MATTER DURING THE COURSE OF A LONG CONVERSATION TOUCHING ON MANY MATTERS WERE THE FOLLOWING. BURSTIN INQUIRED INTO POSSIBILITY OF BILATERAL POLITICAL PROBLEMS ARISING FROM PROPOSED

PURCHASE OF STANDARD. LAZAR REPLIED THAT AS LONG AS WE WERE TALKING ABOUT A SALE, I.E., MUTUALLY ACCEPTABLE AGREEMENT COVERING ALL POINTS OF ISSUE, AS DISTINCT FROM SOMETHING LIKE AN UNCOMPENSATED OR FORCED SALE THROUGH EXPROPRIATORY ACTION, THERE SHOULD BE NO POLITICAL RAMIFICATIONS. LAZAR ASKED BURSTIN WHAT ARRANGEMENTS COSTA RICA THOUGHT IT COULD MAKE FOR THE TRANSPORTATION AND MARKETING OF THE BANANAS IN THE EVENT OF A PURCHASE. BURSTIN, WHO PROFESSED TO BE OPPOSED TO THE PURCHASE AND CLAIMED TO HAVE MADE THIS CASE STRONGLY TO ODUBER, AGREED THAT THIS WAS THE MOST TELLING ARGUMENT AGAINST THE PURCHASE. LAZAR EXPRESSED A FEAR THAT THE PURCHASE OF STANDARD'S OPERATION BY COSTA RICA WOULD LEAVE THE CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 164799

GOVERNMENT OF COSTA RICA IN A POSITION OF HAVING TO CONTINUE TO PAY ALL THE EMPLOYEES PRESENTLY ON STANDARD'S ROLES WITHOUT THE POSSIBILITY OF EARNING ENOUGH THROUGH SALES TO COVER THIS VERY HEAVY EXPENSE, IN EFFECT A PERMANENT GOVERNMENT SUBSIDY WHICH THE GOVERNMENT COULD ILL AFFORD. THE NET EFFECT OF BURSTIN'S VARIOUS COMMENTS WAS TO UNDERSCORE MEMO'S IMPLIED ASSERTION OF COSTA RICAN INTENTION TO PURCHASE STANDARD.

4. COMMENT: IN SPECULATING ON ODUBER'S POSSIBLE MOTIVATION FOR TRANSMITTING THIS MEMORANDUM, WHICH EVEN AS AN HISTORICAL DOCUMENT IS INCOMPLETE AND IN SOME CASES INACCURATE, DEPARTMENT LEANS TOWARD THE FOLLOWING THESIS: COSTA RICA DOES NOT REALLY WANT TO BUY STANDARD; STANDARD IS AWARE OF THIS AND IS USING THE SALES DEVICE

AS A WAY OF PUTTING PRESSURE ON COSTA RICA WITH RESPECT TO THE TAX ISSUE; THE GOVERNMENT OF COSTA RICA IS AWARE OF THE FACT THAT STANDARD IS USING THIS PLOY AND HAS USED THIS MEANS (I.E., THE MEMORANDUM) AS A WAY OF GETTING THE WORD BACK TO STANDARD THAT THEY NOW FEEL FORCED INTO A CORNER AND WILL BUY STANDARD OUT RATHER THAN YIELD ANY FURTHER ON THE TAX ISSUE.

5. NOTWITHSTANDING THE ABOVE, OUR INCLINATION IS TO NOT, RPT NOT, PASS THIS INFORMATION TO STANDARD. WE BELIEVE THE GOCR SHOULD DEAL WITH STANDARD DIRECTLY ON THIS MATTER. ALSO, WE FEAR THAT IN RECEIVING THIS INFORMATION FROM US, STANDARD MIGHT READ INTO THIS SITUATION FACTORS WHICH ARE NOT PRESENT. WE WOULD APPRECIATE EMBASSY'S THOUGHTS ON PROPOSED HANDLING. DEPARTMENT ALSO WOULD WELCOME EMBASSY CLARIFICATION OF SIGNIFICANCE OF SEPT. 30 DATE. ALSO PLEASE TRANSMIT COPIES OF RECENT BANANA DECREES. INGERSOLL

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